

The impact of foreign-controlled enterprises in the EU

Statistics in focus

INDUSTRY, TRADE AND SERVICES

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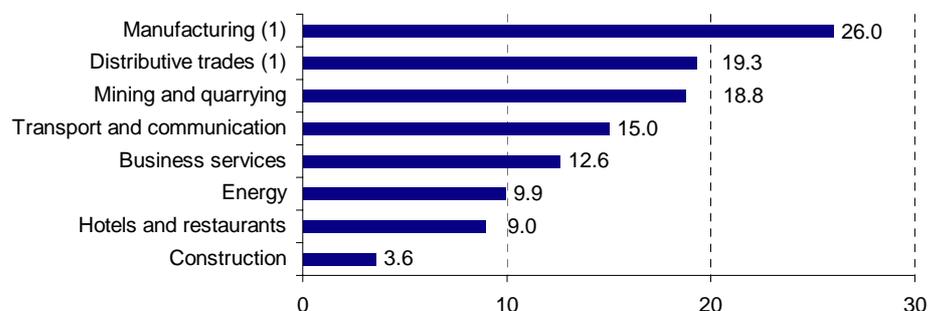
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- Foreign-controlled enterprises were responsible for 18 % of the value added generated in the non-financial business economy in 2003, although they accounted for less than 1 % of the total number of enterprises.
- Foreign-controlled enterprises had a considerably higher level of apparent labour productivity than nationally-controlled enterprises (1.7 times higher).
- More than half of the value added (54 %) and employment (58 %) generated by foreign-controlled enterprises was accounted for by industrial activities (NACE Sections C to F).
- Foreign-controlled enterprises were most important within the manufacturing sector, where they accounted for 26 % of the value added and 19 % of total employment.
- More than 60 % of the value added generated by foreign-controlled enterprises could be attributed to enterprises in other Member States, with Germany, the United Kingdom, France and the Netherlands the largest contributors.
- Enterprises from the United States accounted for over 25 % of the value added generated by foreign controlled-enterprises; the highest share among extra-EU countries.

Figure 1: Share of total value added generated by foreign-controlled enterprises, average of all reporting countries, 2003 (%)



(1) Estimates.

This publication presents the latest statistics on inward foreign affiliates statistics (inward FATS) collected by Eurostat for 2003. A large amount of the data presented refers to an average (or a total) based on data for 14 of the Member States concerning the non-financial business economy (defined as NACE Sections C to I and K). Average figures are based on the following availability: Bulgaria, the Czech Republic, Denmark (2002, not available for non-financial business economy), Estonia, Italy (2002), Latvia, Lithuania, Hungary, the Netherlands (2002), Austria, Portugal, Romania, Slovakia and Sweden (2002).

Inward FATS statistics describe the activity of foreign affiliates resident in the country. The statistics are based on 'majority control', exerted via the ability to determine the general policy of an enterprise by choosing appropriate directors, if necessary. The share of ownership is often used as a proxy for control. The data presented covers mainly affiliates that are majority-owned by a single investor or by a group of associated investors acting in concert owning more than 50 % of ordinary shares or voting power.



How important are foreign-controlled enterprises?

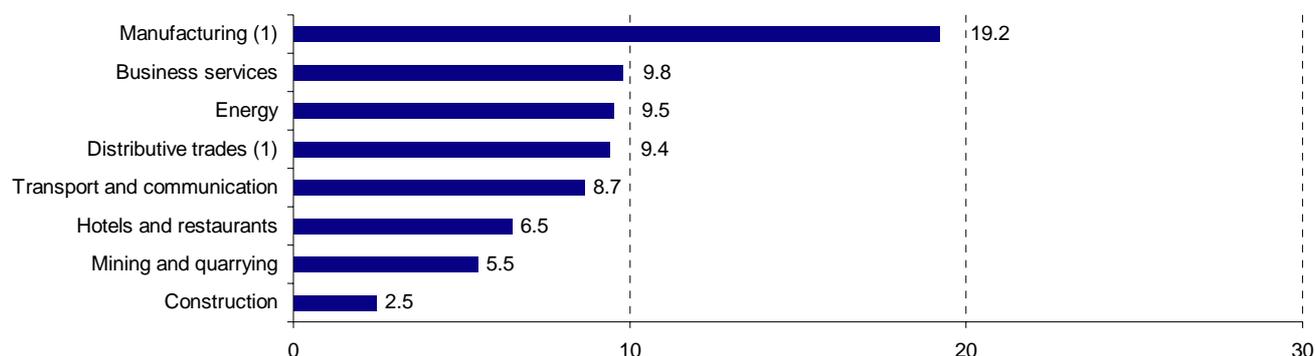
Foreign-controlled enterprises contributed 17.9 % of the value added generated in the EU's non-financial business economy in 2003. They were particularly predominant in the manufacturing sector (NACE Section D), where they accounted for more than a quarter (26.0 %) of total value added, and almost one fifth (19.2 %) of employment – see Figures 1 and 2. Distributive trades (Section G), mining and quarrying (Section C), and transport and communications (Section I) also reported that at least 15 % of their value added was generated by foreign-controlled enterprises. Other than manufacturing, none of the remaining NACE sections recorded an employment share for foreign-controlled enterprises that was in excess of 10 % of the workforce.

Foreign-controlled enterprises usually accounted for a higher proportion of total value added than their corresponding share of employment (see Figure 3), suggesting that their labour productivity was higher than that of nationally-controlled enterprises. One explanation for this may lie in the average size of foreign-controlled enterprises, which were generally

much larger than nationally-controlled enterprises. As a majority of foreign-controlled enterprises were found in industrial activities, the productivity differential may, at least in part, be attributed to economies of scale.

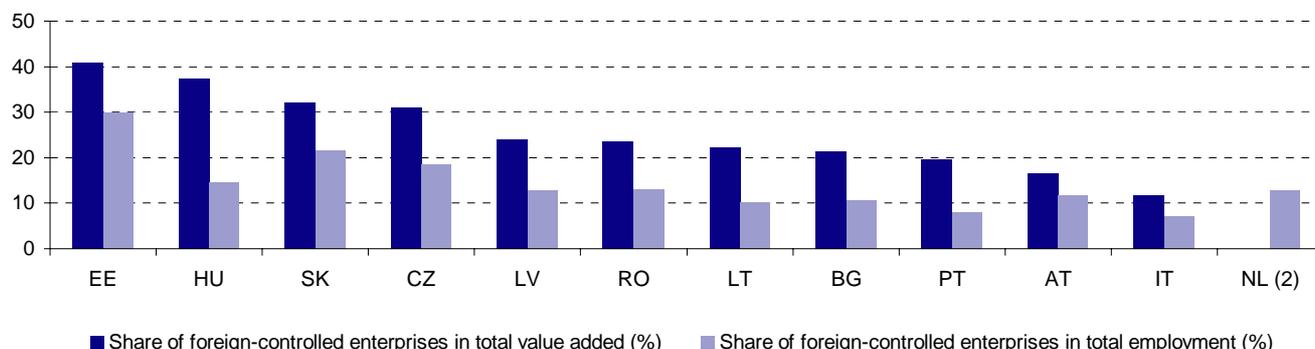
Foreign-controlled enterprises contributed significant shares of total value added within the non-financial business economies of several of the Member States that joined the EU in 2004, including Estonia (40.8 %), Hungary (37.3 %), Slovakia (32.1 %) and the Czech Republic (31.2 %). Employment shares were generally lower, as the contribution of foreign-controlled enterprises never rose above 30 %, ranging from 29.9 % down to 14.5 % for the four Member States cited above. In the remaining countries for which data are available, the relative importance of foreign-controlled enterprises as regards their contribution to the non-financial business economy workforce ranged from 13.1 % (Romania) down to 7.0 % (Italy). Indeed, foreign-controlled enterprises in Italy recorded the lowest economic weight among those countries for which data are available in terms of both value added and employment.

Figure 2: Share of total employment generated by foreign-controlled enterprises, average of all reporting countries, 2003 (%)



(1) Estimates.

Figure 3: Share of total value added and employment generated by foreign-controlled enterprises, non-financial business economy, 2003 (%) (1)



(1) Denmark and Sweden, confidential.

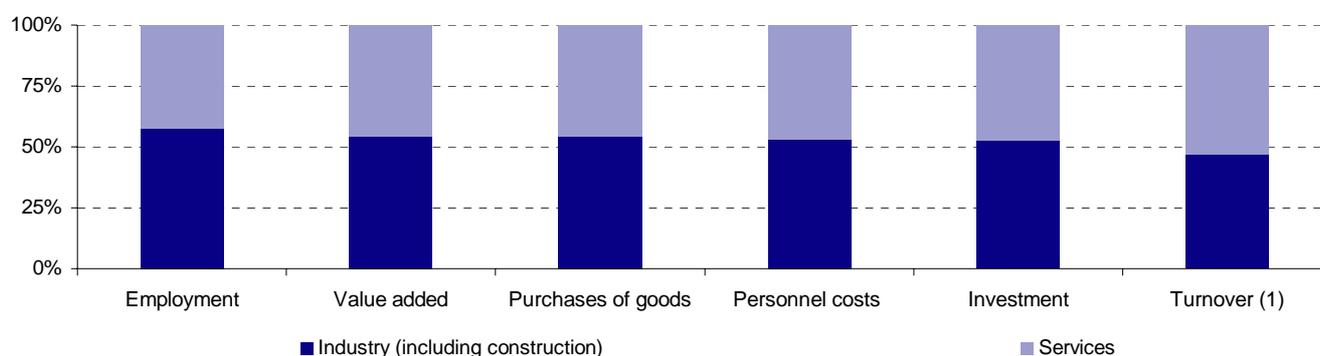
(2) Share of foreign-controlled enterprises in total value added, confidential.

In which activities is foreign control concentrated?

Industrial activities including construction (NACE Sections C to F) accounted for more than half (54 %) of the value added created by foreign-controlled enterprises in the non-financial business economy. The majority (58 %) of the persons employed by foreign-controlled enterprises were engaged within industrial activities, while industrial activities also accounted for a majority of purchases of goods and services (54 %), personnel costs (53 %) and investments in tangible goods (53 %) that were made by foreign-controlled enterprises in the non-financial business economy.

There was one exception to this pattern, as 53 % of the turnover generated by foreign-controlled enterprises was attributed to the services sector – see Figure 4 below. This relatively high share for this particular variable may be attributed to the nature of several services (namely wholesale trade, renting and real estate services), where the sale/renting of goods takes place on a frequent basis, thus inflating sales in relation to other indicators.

Figure 4: Relative importance of foreign-controlled enterprises in industry and services, average of all reporting countries, 2003 (% of total foreign-controlled)



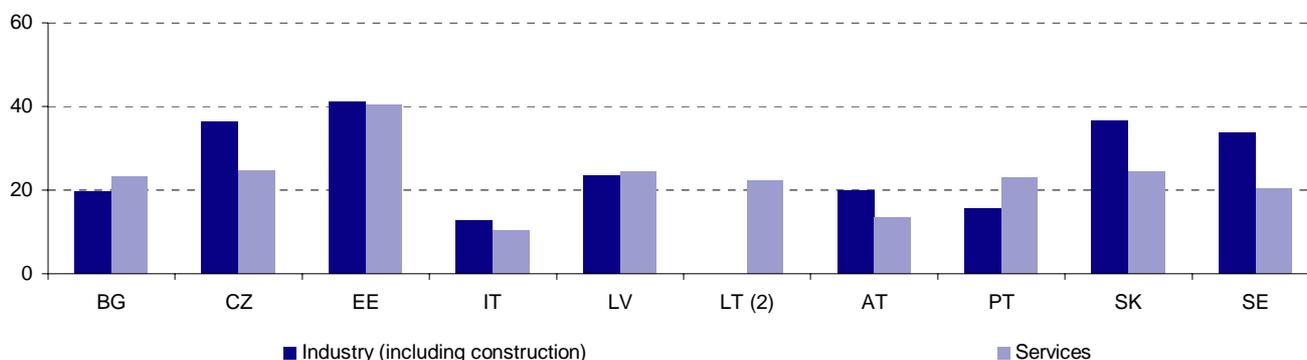
(1) Estimates.

Contrary to the overall picture, there were some Member States where the share accounted for by foreign-controlled enterprises in total value added was higher in the services sector than in industry - see Figure 5 below. This difference was most striking in Portugal, where foreign-controlled enterprises in the services sector accounted for 23.0 % of the value added generated in the Portuguese services sector, compared with a 15.8 % share for foreign-controlled industrial enterprises. Bulgaria was the only other country (for which data are available) to report a higher proportion of

total value added being generated by foreign-controlled enterprises in the services sector (23.2 %, compared with 19.7 % for the industrial economy), while equivalent shares were registered in Estonia and Latvia.

Foreign-controlled industrial enterprises accounted for a considerably higher proportion of total industrial value added in the Czech Republic, Slovakia, Sweden, as well as in Hungary and the Netherlands (not shown), when compared with the share of foreign-controlled enterprises in services value added.

Figure 5: Share of total value added generated by foreign-controlled enterprises, 2003 (%) (1)



(1) Denmark, Hungary, the Netherlands and Romania, confidential.

(2) Industry, confidential.

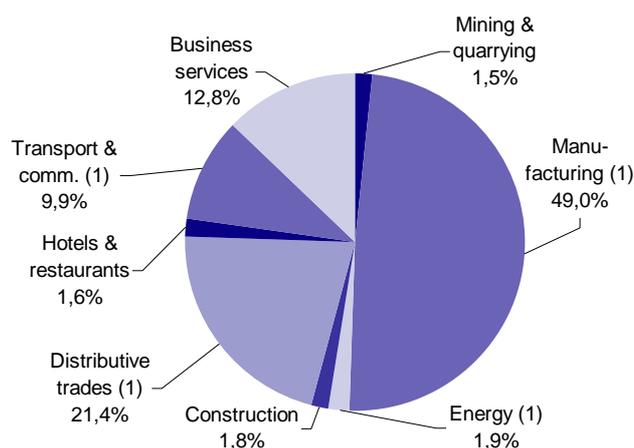
The wealth generated by foreign-controlled enterprises was concentrated within the manufacturing sector (NACE Section D) – see Figure 6. Among services, distributive trades generated more than one fifth (21.4 %) of the added value created by foreign-controlled enterprises in the non-financial business economy. Other activities to account for a significant proportion of value added generated by foreign-controlled enterprises included business services (12.8 %) and transport and communication (9.9 %).

A considerably lower proportion of the value added created by foreign-controlled enterprises was generated within the activities of mining and quarrying (1.5 %), hotels and restaurants (1.6 %), construction (1.8 %) and energy (electricity, gas and water supply) (1.9 %) – which together accounted for 6.8 % of the total value added generated by foreign-controlled enterprises.

Table 1 shows in more detail the activities where the contribution of foreign-controlled enterprises was most concentrated in terms of their share in the total value added of each activity (based on NACE subsections for manufacturing, sections for mining and quarrying, energy and construction and divisions for services). A number of manufacturing activities featured among the top three, with electrical and optical equipment (NACE Subsection DL), coke, refined petroleum products and nuclear fuel (Subsection DF), chemicals, chemical products and man-made fibres (Subsection DG) and transport equipment (Subsection DM) most prominent (each appeared between 5 and 7 times among the top three).

Among the services, the most frequently ranked activity was that of post and telecommunications (NACE Division 64). It appeared six times as one of the top three activities with the highest proportion of value added being generated by foreign-controlled enterprises.

Figure 6: Share of value added in the non-financial business economy generated by foreign-controlled enterprises, average of all reporting countries, 2003 (%)



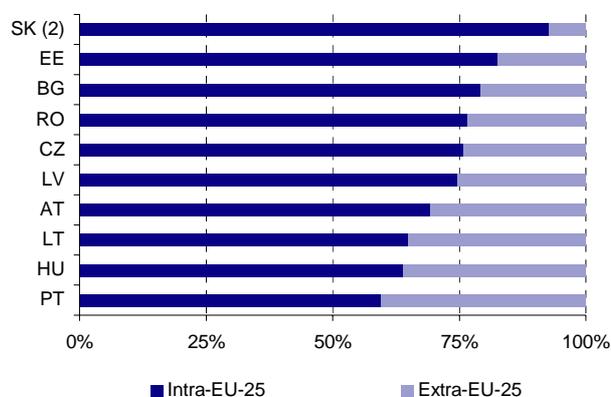
(1) Estimates.

Table 1: Highest proportion of value added generated by foreign-controlled enterprises, NACE subsections in manufacturing (D), sections for mining and quarrying, energy and construction (C, D and F) and divisions for services (G-I, K), 2003 (based on % share)

	Highest	Second highest	Third highest
Bulgaria	Manufacture of other non-metallic mineral products (DI)	Manufacture of electrical and optical equipment (DL)	Post and telecommunications (64)
Czech Republic	Manufacture of transport equipment (DM)	Manufacture of rubber and plastic products (DH)	Manufacture of electrical and optical equipment (DL)
Estonia	Post and telecommunications (64)	Manufacture of electrical and optical equipment (DL)	Manufacture of chemicals, chemical products and man-made fibres (DG)
Italy	Renting of machinery and equipment without operator and of personal and household goods (71)	Manufacture of chemicals, chemical products and man-made fibres (DG)	Manufacture of coke, refined petroleum products and nuclear fuel (DF)
Latvia	Water transport (61)	Manufacture of other non-metallic mineral products (DI)	Mining and quarrying (C)
Lithuania	Manufacture of coke, refined petroleum products and nuclear fuel (DF)	Post and telecommunications (64)	Manufacture of transport equipment (DM)
Hungary	Manufacture of transport equipment (DM)	Manufacture of electrical and optical equipment (DL)	Manufacture of rubber and plastic products (DH)
Netherlands	Manufacture of chemicals, chemical products and man-made fibres (DG)	Manufacture of coke, refined petroleum products and nuclear fuel (DF)	Manufacture of other non-metallic mineral products (DI)
Austria	Manufacture of chemicals, chemical products and man-made fibres (DG)	Research and development (73)	Manufacture of electrical and optical equipment (DL)
Portugal	Post and telecommunications (64)	Manufacture of electrical and optical equipment (DL)	Manufacture of transport equipment (DM)
Romania	Post and telecommunications (64)	Manufacture of basic metals and fabricated metal products (DJ)	Manufacture of electrical and optical equipment (DL)
Slovakia	Manufacture of coke, refined petroleum products and nuclear fuel (DF)	Manufacture of transport equipment (DM)	Post and telecommunications (64)
Sweden	Manufacture of coke, refined petroleum products and nuclear fuel (DF)	Manufacture of chemicals, chemical products and man-made fibres (DG)	Manufacture of other non-metallic mineral products (DI)

Which are the main countries of origin for foreign-controlled enterprises?

Figure 7: Relative contribution of intra- and extra-EU-25 controlled enterprises to total value added of all foreign-controlled enterprises, non-financial business economy, 2003 (%) (1)



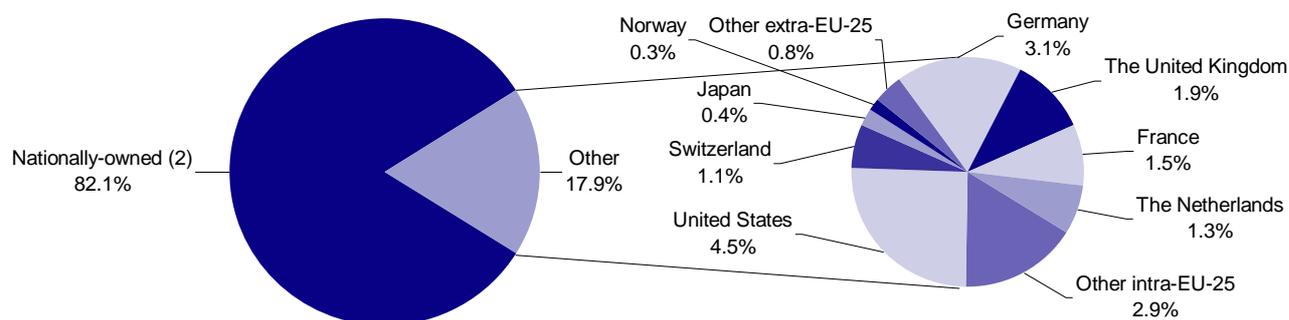
(1) Breakdown for Denmark, Italy, the Netherlands and Sweden, by intra-EU 25 not available.

(2) There could be some overestimation of intra-EU 25 control because the first foreign owner is sometimes used instead of the ultimate controller.

Information on the origins of foreign control can be useful for example when analysing the effects of the internal market. Many qualitative factors could play a role in the decision-making process before setting-up a foreign affiliate, such as geographical proximity (e.g. neighbouring countries), cultural similarities (e.g. common language) or historical reasons. The breakdown of value added generated by foreign-controlled enterprises split between extra-EU-25 and intra-EU-25 control shows a predominance of intra-EU owners in all countries that took part in the data collection exercise. Intra-EU-25 control accounted for between 59.6 % of the value added generated by foreign-controlled enterprises (Portugal) and 92.8 % (Slovakia) – see Figure 7.

More detailed information on the country of origin is provided in Figure 8 – with Germany standing out as the main intra-EU-25 contributor and the United States as the main extra-EU contributor. The main partners for each of the 13 reporting countries for which data are available are displayed in Table 2.

Figure 8: Share of total value added generated by nationally-controlled and foreign-controlled enterprises, with a breakdown by country origin, average of all reporting countries, 2003 (%) (1)



(1) Excluding Denmark.

(2) Estimates.

Table 2: Three main partners according to the share of value added generated by foreign-controlled enterprises in the non-financial business economy, 2003 (%) (1)

	Main partner	Second partner	Third partner
Bulgaria	Austria (26.0)	Germany (12.6)	United States (11.7)
Czech Republic	Germany (36.4)	United States (13.7)	Netherlands (11.1)
Estonia	Sweden (28.5)	Finland (27.6)	Netherlands (6.4)
Italy	United States (c)	Germany (12.8)	United Kingdom (c)
Latvia	Sweden (17.1)	Germany (12.5)	United States (11.8)
Lithuania	Sweden (22.0)	Russia (c)	Denmark (13.3)
Hungary	Germany (29.7)	United States (21.6)	France (8.3)
Netherlands	United States (c)	United Kingdom (c)	Germany (c)
Austria	Germany (44.5)	Switzerland (12.9)	United States (12.2)
Portugal	United States (31.2)	Germany (16.5)	Netherlands (11.1)
Romania	Netherlands (16.0)	Greece (14.2)	France (11.8)
Slovakia	Germany (39.4)	Netherlands (26.9)	Austria (8.8)
Sweden	United States (c)	United Kingdom (c)	Finland (c)

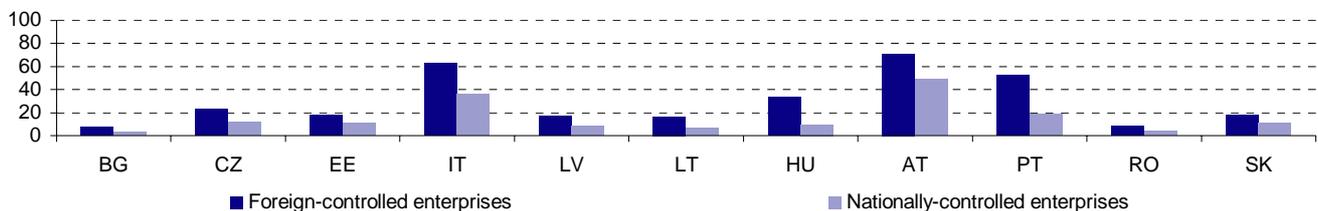
(1) c, value is confidential.

What characteristics do foreign-controlled enterprises display?

There was a disparity between the levels of apparent labour productivity displayed by foreign-controlled and nationally-controlled enterprises in the non-financial business economy. Foreign-controlled enterprises generated an average of EUR 45 500 of value added per person employed across those countries which participated in the data collection exercise (excluding Denmark), compared with an average of EUR 27 500 of value added per person employed for nationally-controlled enterprises. As we have seen, this is partly because foreign controlled enterprises are relatively focussed on high value added activities (in particular in manufacturing).

Figure 9 shows the difference in labour productivity according to origin of control. There were systematically higher levels of apparent labour productivity in foreign-controlled enterprises than in nationally-controlled enterprises in each of the reporting countries. The absolute difference was highest in Portugal (nearly EUR 34 000 per person employed). In relative terms, the ratio of apparent labour productivity among foreign-controlled enterprises compared with that for nationally-controlled enterprises ranged from 3.5 (in Hungary) to 1.4 (in Sweden).

Figure 9: Value added per person employed for foreign-controlled enterprises and for nationally-controlled enterprises, non-financial business economy, 2003 (EUR thousand)



Based on an average for all participating countries (excluding Denmark), foreign-controlled enterprises were, on average, much larger than the average for all enterprises (nationally- and foreign-controlled). Indeed, the former employed an average of 121.0 persons per enterprise, while the latter employed an average of 14.2 persons per enterprise. As such, a typical foreign-controlled enterprise was 8.5 times as large as the average enterprise for the whole population.

This is another factor which may explain at least partially the difference in productivity, as the size of an enterprise plays an important role in determining productivity due to minimum efficient scales of production. It should also be noted that in some Member States, the coverage of the survey is sometimes skewed in favour of large enterprises, which means that the differences in size are likely to be somewhat overstated.

As those persons working for foreign-controlled enterprises generated more value added per person employed than those working for the average enterprise, it is perhaps not surprising to find that employees of foreign-controlled enterprises tended, on average, to be paid more. Average personnel costs per employee among foreign-controlled enterprises were EUR 26 100 within the non-financial business economy, some EUR 6 600 higher than among the average enterprise.

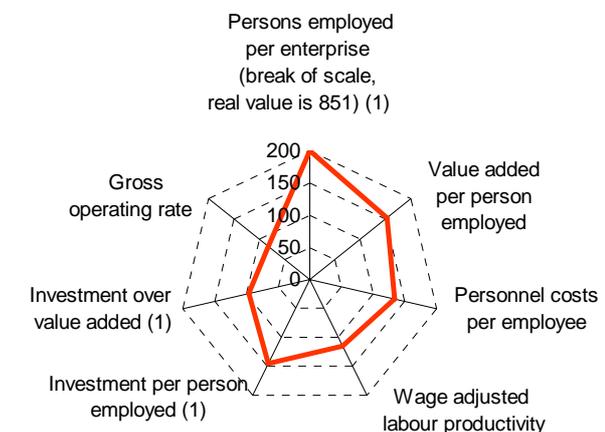
The wage adjusted labour productivity ratio can be calculated as value added per person employed divided by average personnel costs. Despite higher average

personnel costs, foreign-controlled enterprises reported higher wage adjusted labour productivity (167.4 %) than the average for all enterprises (145.4 %).

Foreign-controlled enterprises also reported a higher ratio of investment in tangible goods and services per person employed (EUR 9 200) compared with the average for all enterprises (EUR 6 300).

It was, however, interesting to note that the gross operating rate (which is one measure of profitability) was lower for foreign-controlled enterprises (8.9 %) than it was for the average of all enterprises (10.9 %).

Figure 10: Indices of selected measures for foreign-controlled enterprises, non-financial business economy, average of all reporting countries, 2003 (total of all enterprises = 100)



(1) Based on estimates for foreign-controlled enterprises.

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

LEGAL BASIS

Statistics on foreign-controlled enterprises are collected on a voluntary basis and according to the forthcoming Regulation of the European Parliament and the Council on the structure and activity of foreign affiliates will provide a legal basis for the data collection. This will establish a common framework for a systematic production of Community statistics on the structure and activity of foreign affiliates.

More information:

For more information and links to publications and data, see under the special topic 'foreign-controlled enterprises' on the European business dedicated section of the Eurostat website (under theme industry, trade and services):

http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2293_59872848_2293_61474735&_dad=portal&_schema=PORTAL#FATS

DEFINITIONS

Foreign affiliates:

Inward foreign affiliates statistics (inward FATS) describe the overall activity of foreign affiliates resident in the compiling economy.

A foreign affiliate under the terms of inward FATS is an enterprise that is resident in the compiling country, for which an institutional unit not resident in the compiling country has control.

Control is the ability to determine the general policy of an enterprise by choosing appropriate directors, if necessary. Enterprise A is deemed to be controlled by an institutional unit B when B controls – directly or indirectly – more than half of the shareholders' voting power or more than half of the shares. However, control is often difficult to determine and, in practice, the share of ownership is often used as a proxy for control. FATS thus focus on the affiliates that are majority-owned by a single investor or by a group of associated investors acting together and owning more than 50 % of the ordinary shares or voting power.

The control is attributed to the **Ultimate Controlling Institutional Unit (UCI)**. The UCI is the institutional unit, proceeding up a foreign affiliate's chain of control, which is not controlled by another institutional unit. Some data compilers used the concept of first foreign parent (the first enterprise outside the Member State with more than 50 % ownership of shares) or Ultimate Beneficial Ownership (which uses the chain of ownership) as a proxy when the UCI was not available. This might lead to a distortion of results, e.g. if there is investment via the Netherlands there will be an overestimation of intra-EU-25 control as well.

The main indicators used:

Turnover: comprises the total invoiced by the observation unit during the reference period, and this corresponds to market sales of goods or services supplied to third parties.

Value added (at factor cost): is the gross income from operating activities after adjusting for operating subsidies and indirect taxes. It can be calculated from turnover, plus capitalised production, plus other operating income, plus or minus the changes in stocks, minus the purchases of goods and services, minus other taxes on products which are linked to turnover but not deductible, minus the duties and taxes linked to production. Alternatively it can be calculated from gross operating surplus by adding personnel costs.

Number of persons employed: is defined as the total number of persons who work in the observation unit (inclusive of working proprietors, partners working regularly in the unit and unpaid family workers), as well as persons who work outside the unit who belong to it and are paid by it (for example, sales representatives, delivery personnel, repair and maintenance teams).

Personnel costs: are defined as the total remuneration, in cash or in kind, payable by an employer to an employee (regular and temporary

employees as well as home-workers) in return for work done by the latter during the reference period. Personnel costs also include taxes and employees' social security contributions retained by the unit as well as the employer's compulsory and voluntary social contributions.

Purchases of goods and services: include the value of all goods and services purchased during the reference period for resale or consumption in the production process, excluding capital goods the consumption of which is registered as consumption of fixed capital. The goods and services concerned may be either resold with or without further transformation, completely used up in the production process or, finally, be stocked.

Gross investments in tangible goods: include all new and existing tangible capital goods, whether bought from third parties or produced for own use (in other words, capitalised production of tangible capital goods), having a useful life of more than one year including non-produced tangible goods such as land.

Apparent labour productivity: is defined as the ratio of value added divided by the number of persons employed.

Wage adjusted labour productivity ratio: is defined as the ratio of value added divided by personnel costs (the latter having been divided by the share of employees in the number of persons employed); the result is expressed as a percentage. The ratio can also be calculated by dividing apparent labour productivity by average personnel costs and expressing the result as a percentage.

Gross operating rate: is defined as the gross operating surplus (surplus generated by operating activities after the labour factor input has been recompensed) divided by turnover; the result is expressed as a percentage.

COVERAGE

Data refer to controlled affiliates abroad. In some cases, data collection is based on sample surveys. The statistical unit is the enterprise and all branches abroad that are controlled by an institutional unit resident in the compiling economy.

The data covers a majority of EU Member States which participated on a voluntary basis in the pilot project. Participation and coverage have been improved year on year. All the Member States with available data for the years 2002 or 2003 have been included in this publication and their data is shown in the tables and graphs presented in this publication. However, as not all EU countries participated in the data collection exercise, and as estimates for missing countries are not available, no true European aggregates are calculated, rather the averages that have been produced are based on the data available.

ECONOMIC ACTIVITIES - NACE

For the classification of inward FATS by economic activity, the reference classification is NACE Rev. 1.1. NACE is a hierarchical classification of economic activities, covering (among others):

NACE Section C: mining and quarrying
NACE Section D: manufacturing
NACE Section E: energy
NACE Section F: construction
NACE Section G: distributive trades
NACE Section H: hotels and restaurants
NACE Section I: transport and communications
NACE Section K: business services

The industry aggregate covers NACE Sections C to F.
The services aggregate covers NACE Sections G to K (excluding J, financial intermediation).
The non-financial business economy aggregate covers NACE Sections C to K (excluding J).

Further information:

Data: [EUROSTAT Website/Home page/Industry, trade and services/Data](#)

Industry, trade and services

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